

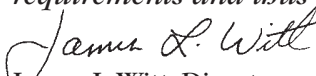
COMPLIANCE WITH REGULATORY FINANCIAL REPORTING

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MANAGEMENT INTEGRITY AND ACCOUNTABILITY

FMFIA ASSURANCE STATEMENT

I am able to certify with reasonable assurance that, except for non-conformances specifically identified in this section of the FY 1999 Accountability Report, the Agency is in compliance with the provisions of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA). FEMA's financial management systems are in compliance with federal financial management systems requirements and thus assurance is provided for Section 4 of FMFIA.


James L. Witt, Director

Federal Emergency Management Agency

STATUS OF MANAGEMENT CONTROL

FEMA's Office of Financial Management (OFM) has given priority to integrating and streamlining budget and management reports to provide more useful information to decision makers; and to implementing an approach to management controls that integrates management controls with other management improvement initiatives.

Status:

- For the second consecutive year, OFM prepared consolidated financial statements for FY 1999 for all of its activities in compliance with the Chief Financial Officer's (CFO) Act of 1990 and the Government Management Reform Act of 1994.
- The Agency's consolidated financial statements received an unqualified opinion from an independent public accounting firm.
- Improvements made to the internal and management control structures within FEMA include: quarterly analyses and reconciliations of general ledger account balances; weekly status meetings with management and accounting staff; and the improved reconciliation of fund balances with Treasury.
- The Disaster Closeout Teams, established in January 1998 to expedite the closeout of pre-October 1997 open disasters, closed a total of 262 disasters, reducing the costs remaining by over \$2.5 billion. The original three teams are now consolidated into two teams, and their appointments are extended an additional year to allow for the completion of this task. Based on a recently issued Office of Inspector General audit, Disaster Closeout is being removed as a material weakness.
- Comptroller positions are established at Disaster Field Offices (DFOs) and filled with qualified employees to help ensure the integrity of financial processes and internal and management controls. Comptrollers are required to attend training sessions before being deployed to various DFO sites. A new contingent of comptrollers was recruited and trained during the year, bringing the comptroller cadre to a total of 22.
- During FY 1999, OFM continued to build upon improving quality controls. For example, several financial management reviews (cash transactions, accounts receivable, advances, fixed assets, vendor payments, travel payments, mission assignments, individual

assistance payments and payroll) were updated. Extensive reconciliations of Disaster Relief Fund state grant advances, payroll data, and general ledger proprietary account balances were also performed.

- The Office of Financial Management is developing a credentialing program designed to correspond with the Core Competencies adopted by the CFO Council and the Joint Financial Management Improvement Program. Credentialing and training requirements are being developed for financial disaster response positions. Initially, the program will focus on FEMA's disaster cadre workforce, but eventually it will expand to the total financial management workforce.

FEMA's Federal Insurance Administration (FIA) implemented the following initiatives to help strengthen management controls for the National Flood Insurance Program (NFIP):

- The insurance underwriting portion of the NFIP received unqualified opinions on the FY 1998 Financial Statement Audits.
- All Write Your Own (WYO) companies that submitted a Biennial Audit in 1998 received unqualified opinions from their auditors.
- Claims re-inspection efforts with WYO companies are continuing, resulting in reimbursements for overpayments to the NFIP.
- Intensified claims operations reviews conducted by FIA staff continue, resulting in reimbursements to the NFIP for claim overpayments by the WYO companies.

Number of Material Weaknesses by Fiscal Year			
Fiscal Year	Number at Beginning of Fiscal Year	Corrected by End of Fiscal Year	Number Remaining
1995	5	2	3
1996	3	1	2
1997	2	0	2
1998	2	1	1
1999	1	1	0

Number of Non-Conformances by Fiscal Year			
Fiscal Year	Number at Beginning of Fiscal Year	Corrected by End of Fiscal Year	Number Remaining
1995	5	1	4
1996	4	0	4
1997	4	0	4
1998	4	1	3
1999	3	0	3*

*System non-conformances remaining: Data Accessibility; Financial System Documentation; Insurance Accounting.

- FIA provides extensive support to the FEMA Inspector General in investigations of WYO companies investing NFIP funds. This effort has resulted in millions of dollars being reimbursed to the NFIP.
- FIA completed an analysis of the WYO companies expense allowance. As a result of the study, FIA is in the process of altering the formula currently used to calculate the WYO expense allowance. This new formula should result in a decrease to the WYO expense allowance for the next fiscal year, resulting in program savings.

PROMPT PAYMENT ACT

Description of Agency payment practices: FEMA payment practices are conducted in compliance with the Prompt Payment Act and the Debt Collection Improvement Act (DCIA) of 1996. Vendor payments are made within 30 days upon receipt of a proper invoice; travel vouchers are paid within 2-4 work days upon receipt; temporary housing payments are made to disaster recipients within 24 hours; and grants are made available for drawdown within 24 hours notification. FEMA prefers to use the electronic funds transfer (EFT) method of payment and ensures that the taxpayer identification number is included on certified payment vouchers submitted to federal disbursing officials.

Progress made: During the year, FEMA effectively and efficiently made payments by:

- Using the EFT system to make approximately 99% of salary, 69% of vendor, 98% of travel, and 99% of loan and grant payments.
- Successfully implementing the National Emergency Management Information System (NEMIS) Versions 1 and 2 to interface electronically with the Integrated Financial Management Information System. This interface allows disaster housing victims to receive payments by electronic funds transfer or check.
- Certifying temporary housing payments electronically through NEMIS.
- Evaluating and planning for the future implementation of a document imaging system to move and store invoices and other information electronically.
- Successfully phasing in new standard operating procedures for the processing of credit card invoices.
- Working with FEMA program offices to streamline the process for ordering transportation services—Government Bills of Lading to reduce interest penalty payments.

Prompt Pay Table				
Fiscal Year	Number of Payments	Number of Late Payments	Percent of Payments Late	Penalty Interest
1995	34,608	1,724	4.98%	\$90,248
1996	30,806	2,518	8.17%	\$111,581
1997	20,702	968	4.60%	\$85,617
1998	20,702	1,487	5.45%	\$17,476
1999	29,583	404	0.01%	\$17,219

MANAGEMENT FOLLOW-UP TO OIG RECOMMENDATIONS

FEMA's follow-up to actions on audit report findings and recommendations are essential to recover those funds that have been found to be owed to FEMA, and to provide direction for improving the effectiveness and efficiency of our program operations.

FEMA began FY 1999 with 61 audit reports carried over from FY 1998. These contained approximately \$44.1 million in costs that management determined should not be charged to the Agency's programs (disallowed costs). Another 16 audit reports represented just over \$73 million which could be used more efficiently (funds put to better use).

During the year, 65 new audit reports containing over \$31 million of disallowed costs were agreed to between FEMA's Inspector General and FEMA management, and we completed action on 54 of the total 126 open audit reports while recovering almost \$32 million. Ten new audit reports representing over \$151 million in recommended funds to be put to better use were agreed to, and 8 of the total 26 audit reports of that type were closed, resulting in the release of over \$193 million in funds that could be better utilized elsewhere. The table below depicts these activities.

	Number of Audit Reports Identifying Disallowed Costs	Amount of Disallowed Costs	Number of Audit Reports Identifying Funds to be Put to Better Use	Amount of Funds to be Put to Better Use
Beginning FY 1999	61	\$44,132,552	16	\$73,001,006
New Audits During FY 1999	65	\$31,686,932	10	\$151,032,445
Audits Closed During FY 1999	(54)	\$(31,959,053)	(8)	\$(193,667,057)
End of FY 1999	72	\$43,860,431	18	\$30,366,394

The inevitable long-term nature of disaster recovery and other grant programs often dictates that projects (and subsequently, audit reports conducted on those projects) must stay open for protracted periods of time before they can be closed, and funds owed to the Agency can be recovered. This is especially true when recipients are permitted to spread the pay-back of large sums over time (often several years), or are allowed to offset repayments against payments owed them in present or future disasters. But the Agency is working diligently to accelerate the process of closing audit reports, with special emphasis on audits that have been open for more than a year.

DEBT COLLECTION IMPROVEMENT ACT (DCIA) OF 1996

The DCIA allows FEMA to collect its debts through the Department of Treasury Financial Management Services Cross Servicing Program, and the Treasury Offset Program. As of September 30, 1999, net accounts receivable total approximately \$67 million.

Direct Loan Program. Through the Disaster Relief Fund, FEMA provides assistance, in the form of loans, to communities, individuals, and families. It also provides loans for public assistance and hazard mitigation to disaster victims and communities across the nation. To date, the Agency has made a total of \$181 million in direct loans. Accrued interest on these outstanding loans total \$56 million. Collections during the year, including accrued interest, total \$5 million.

Treasury Offset Program (TOP). Agency debt over 180 days is referred to the TOP for collection. During FY 1999, a total of 3,922 debts were referred to the TOP. These debtors owe FEMA a total of \$9.8 million. Collections totaling \$572,291 were received from 621 debtors.

Treasury Cross-Servicing Program. FEMA transferred debts totaling \$12.9 million to the Treasury Cross-Servicing Program in FY 1999. In the fourth quarter, an additional 5,832 new debts totaling \$9.4 million became eligible for referral to the program, making the total debt under this program \$22 million. Collections totaling \$287,000 were received from 961 debtors during the year.

CIVIL MONETARY PENALTIES

The Federal Civil Penalties Inflation Adjustment Act established annual reporting requirements for civil monetary penalties assessed and collected by federal agencies. Civil penalties are defined as any non-criminal penalty, fine, or other sanction for which a given dollar amount or maximum amount is specified by federal law, and which is assessed or enforced by an agency as a result of an administrative proceeding or civil action in federal courts. As indicated by the following table, FEMA has miniscule civil monetary penalties to collect.

Fiscal Year	Number of Cases	Amount	Collections	Balance
1995	1	\$10,745	\$932	\$9,813
1996	1	\$9,813	\$982	\$8,831
1997	2	\$18,831	\$10,492	\$8,339
1998	1	\$8,339	0	\$8,339
1999	1	\$6,298*	0	\$6,298

*The decrease in the FY 1998 year end balance (in the amount of \$2,041) brought forward at the beginning of FY 1999 occurred as a result of the reconciliation of the Agency's receivables accounts during the year.

